



ESPCO TECHNOLOGY HOLDINGS LIMITED

易盈科技控股有限公司

(Incorporated in the Cayman Islands with limited liability)

2005 INTERIM REPORT

CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET (“GEM”) OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE “STOCK EXCHANGE”)

GEM has been established as a market designed to accommodate companies to which a high investment risk may be attached. In particular, companies may list on GEM with neither a track record of profitability nor any obligation to forecast future profitability. Furthermore, there may be risks arising out of the emerging nature of companies listed on GEM and the business sectors or countries in which the companies operate. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.

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The principal means of information dissemination on GEM is publication on the Internet website operated by the Stock Exchange. GEM-listed companies are not generally required to issue paid announcements in gazetted newspapers. Accordingly, prospective investors should note that they need to have access to the GEM website at www.hkgem.com in order to obtain up-to-date information on GEM-listed issuers.

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This report, for which the directors (the “Directors”) of Espco Technology Holdings Limited (the “Company”) collectively and individually accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the “GEM Listing Rules”) for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that, to the best of their knowledge and belief, (i) the information contained in this report is accurate and complete in all material respects and not misleading; (ii) there are no other matters the omission of which would make any statement in this report misleading; (iii) all opinions expressed in this report have been arrived at after due and careful consideration and are founded on bases and assumptions that are fair and reasonable.

HIGHLIGHTS

1. The Group has recorded an unaudited consolidated turnover of approximately HK\$206 million for the six months ended 30th September 2005, representing an increase of approximately 5% as compared with turnover of approximately HK\$196 million for the corresponding period in 2004.
2. The Group has recorded an unaudited consolidated net profit attributable to shareholders of approximately HK\$5.2 million (basic earnings per share of approximately HK1.45 cents) for the six months ended 30th September 2005, representing an increase of approximately 22% as compared with that of approximately HK\$4.3 million (basic earnings per share of approximately HK1.61 cents) for the corresponding period in 2004.

TO ALL SHAREHOLDERS,

The board of Directors (the "Board") of the Company is pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively, the "Group") for the six months and three months ended 30th September 2005, together with the comparative unaudited figures for the corresponding period in 2004 as follows:

CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	(Unaudited) Six months ended 30th September		(Unaudited) Three months ended 30th September	
		2005 HK\$'000	2004 HK\$'000 (restated)	2005 HK\$'000	2004 HK\$'000 (restated)
Turnover	2	205,586	196,299	115,916	93,932
Cost of sales		193,596	185,807	108,193	88,118
Gross profit		11,990	10,492	7,723	5,814
Other revenues	2	243	327	92	161
Selling and distribution expenses		(501)	(460)	(278)	(352)
General and administrative expenses		(6,038)	(5,571)	(3,186)	(2,992)
Operating profit	4	5,694	4,788	4,351	2,631
Finance costs		(169)	(154)	(108)	(106)
Profit before taxation		5,525	4,634	4,243	2,525
Taxation	5	(331)	(376)	(254)	(206)
Net profit attributable to shareholders		5,194	4,258	3,989	2,319
Dividend	6	-	1,071	-	-
Basic earnings per share	7	HK1.45 cents	HK1.61 cents	HK1.12 cents	HK0.86 cent

CONDENSED CONSOLIDATED BALANCE SHEET

	<i>Note</i>	(Unaudited) As at 30th September 2005 HK\$'000	(Audited) As at 31st March 2005 HK\$'000 (restated)
Non-Current assets			
Property, plant and equipment		19,106	20,021
Prepaid lease payments		1,443	1,439
Deferred tax assets		208	220
		20,757	21,680
Current assets			
Inventories		25,549	13,335
Trade and other receivables	8	53,858	53,803
Deposits and prepayments		240	354
Prepaid lease payments		30	30
Bank balances and cash		11,679	11,410
		91,356	78,932
Current Liabilities			
Trade and other payables	9	22,250	18,123
Amount due to a director		5	62
Current portion of interest-bearing borrowings	11	10,580	4,845
Tax payable		1,059	893
		33,894	23,923
Net current assets		57,462	55,009
Total assets less current liabilities		78,219	76,689
Non-current liabilities			
Non-current portion of interest-bearing borrowings	11	–	477
Deferred tax liabilities		559	552
Total non-current liabilities		559	1,029
Net assets		77,660	75,660
Capital and reserves			
Share capital	10	3,571	3,571
Reserves		74,089	72,089
		77,660	75,660

CONDENSED CONSOLIDATED CASH FLOW STATEMENT

	(Unaudited)	
	Six months ended	
	30th September	
	2005	2004
	HK\$'000	HK\$'000
Net cash used in operating activities	(1,218)	(3,510)
Net cash used in investing activities	(302)	(218)
Net cash (used in)/from financing activities	(1,095)	14,753
Net (decrease)/increase in cash and cash equivalents	(2,615)	11,025
Cash and cash equivalents at the beginning of the period	11,410	5,807
Effect of foreign exchange rate changes	(255)	(21)
Cash and cash equivalents at the end of the period	<u>8,540</u>	<u>16,811</u>
Analysis of the balances of cash and cash equivalents		
Bank balances and cash	11,679	16,811
Bank overdrafts	(3,139)	—
	<u>8,540</u>	<u>16,811</u>

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the six months ended 30th September 2005*

	Issued share capital	Share premium	Capital reserve	Revaluation reserve	Statutory surplus reserve	Statutory welfare fund	Statutory general reserve	Exchange reserve	Retained profits	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Six months ended										
30th September 2005										
Balance at 1st April 2005, as previously reported	3,571	18,972	13,463	9,151	325	162	485	4	31,535	77,668
Effect of adoption of new accounting policy – HKAS 17				(4,385)					2,377	(2,008)
Balance at 1st April 2005, as restated	3,571	18,972	13,463	4,766	325	162	485	4	33,912	75,660
Exchange differences arising from translation of accounts of overseas subsidiaries								20		20
Profit for the period									5,194	5,194
Dividend – 2005 final									(3,214)	(3,214)
Balance at 30th September 2005	<u>3,571</u>	<u>18,972</u>	<u>13,463</u>	<u>4,766</u>	<u>325</u>	<u>162</u>	<u>485</u>	<u>24</u>	<u>35,892</u>	<u>77,660</u>
Six months ended										
30th September 2004										
Balance at 1st April 2004, as previously reported	–	3,000	13,463	9,652	325	162	–	25	27,861	54,488
Effect of adoption of new accounting policy – HKAS 17				(4,661)					1,883	(2,778)
Balance at 1st April 2004, as restated	–	3,000	13,463	4,991	325	162	–	25	29,744	51,710
Capitalisation issue	2,607	(2,607)								–
Placing of shares	964	26,036								27,000
Expenses in connection with the listing of the shares of the Company		(7,457)								(7,457)
Exchange differences arising from translation of accounts of overseas subsidiaries								(19)		(19)
Profit for the period									4,258	4,258
Transfer to statutory reserves							485		(485)	–
Dividends – 2004 final									(3,500)	(3,500)
Balance at 30th September 2004	<u>3,571</u>	<u>18,972</u>	<u>13,463</u>	<u>4,991</u>	<u>325</u>	<u>162</u>	<u>485</u>	<u>6</u>	<u>30,017</u>	<u>71,992</u>

NOTES TO ACCOUNTS

For the six months ended 30th September 2005

1. BASIS OF PREPARATION

The unaudited condensed financial statements has been prepared in accordance with Hong Kong Accounting Standard No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), and the disclosure requirements of the Rules Governing the Listing of Securities on the Growth Enterprise Market of the Stock Exchange of Hong Kong Limited (the "GEM Listing Rules"). The accounting policies adopted in preparing the unaudited condensed financial statements are consistent with those followed in the annual financial statements for the year ended 31st March 2005 except as described below:

In 2004, the HKICPA has issued a number of new and revised Hong Kong Accounting Standards ("HKASs") and Hong Kong Financial Reporting Standards ("HKFRSs") (hereinafter collectively referred to as "new HKFRSs") which are effective for accounting period beginning on or after 1st January 2005. In the current period, the Group has adopted, for the first time, those new HKFRSs which are pertinent to its operations and relevant to these condensed financial statements. The adoption of the new HKFRSs has no material impact on the Group's results of operations and financial position, except for the adoption of HKAS 17 as described below.

In the previous periods, leasehold land and buildings were included in property, plant and equipment and carried at valuation less subsequent accumulated depreciation or amortization. Following the adoption of HKAS 17, the land and buildings elements of a lease of land and buildings are considered separately for the purposes of lease classification, unless the lease payments cannot be allocated reliably between the land and buildings elements, in which case, the entire lease is generally treated as a finance lease. To the extent that the allocation of the lease payments between the land and buildings can be made reliably, the leasehold interests in land are reclassified to prepaid lease payments under operating leases, which are carried at cost and amortised over the lease term on a straight line basis. This change in accounting policy has been applied retrospectively. Alternatively, where the allocation between the land and buildings elements cannot be made reliably, the leasehold interests in land continue to be accounted for as property, plant and equipment.

The effect of adopting HKAS 17 on the consolidated profit and loss account for the six months ended 30th September 2005 and 30th September 2004 are as follows:

	Six months ended	
	30th September 2005 HK\$'000	30th September 2004 HK\$'000
Increase in amortization of land	(15)	(15)
Decrease in depreciation of land	<u>245</u>	<u>262</u>
Increase in profit for the period	<u><u>230</u></u>	<u><u>247</u></u>

The above changes result in a decrease in cost of sales by approximately HK\$230,000 and HK\$247,000 for the six months ended 30th September 2005 and 30th September 2004 respectively.

The cumulative effects of adopting HKAS 17 on the consolidated balance sheet as at 31st March 2005 are as follows:

	As at 31st March 2005 (as previously reported) HK\$'000	Effects of adoption of HKAS 17 HK\$'000	As at 31st March 2005 (restated) HK\$'000
Property, plant and equipment	23,942	(3,921)	20,021
Prepaid lease payments (current and non-current)	—	1,469	1,469
Deferred tax liabilities	<u>(996)</u>	<u>444</u>	<u>(552)</u>
	<u><u>22,946</u></u>	<u><u>(2,008)</u></u>	<u><u>20,938</u></u>
Revaluation reserve	9,151	(4,385)	4,766
Retained earnings	<u>31,535</u>	<u>2,377</u>	<u>33,912</u>
	<u><u>40,686</u></u>	<u><u>(2,008)</u></u>	<u><u>38,678</u></u>

The condensed consolidated financial statements are unaudited but have been reviewed by the audit committee of the Company.

2. TURNOVER AND REVENUES

The Group is principally engaged in the design, manufacture and distribution of desktop personal computer ("PC") components. Revenue recognized in the periods are as follows:

	(Unaudited)		(Unaudited)	
	Six months ended 30th September	2004	Three months ended 30th September	2004
	2005 HK\$'000	HK\$'000	2005 HK\$'000	HK\$'000
Turnover				
Sales of own-manufactured goods at invoiced value, net of returns and discounts	171,867	149,444	98,175	75,878
Trading of PC components	17,151	45,401	6,904	17,491
Processing fee income	16,568	1,454	10,837	563
	205,586	196,299	115,916	93,932
Other revenues				
Sundry income	243	327	92	161
Total revenues	205,829	196,626	116,008	94,093

3. SEGMENTAL INFORMATION

Business segment information is chosen as the primary reporting format because this is more relevant to the Group in making operating and financial decisions.

No segment information by business segment is presented as the Group primarily operates in a single business segment which is the manufacturing and distribution of desktop PC components throughout the periods.

Secondary reporting format – geographical segments

	(Unaudited) Six months ended 30th September		(Unaudited) Three months ended 30th September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
PRC, excluding Hong Kong and Taiwan	134,118	121,758	73,853	59,246
Taiwan	18,809	20,003	9,376	10,332
Hong Kong	16,011	20,575	11,410	4,933
Singapore	20,987	14,614	16,520	8,473
Korea	2,240	–	1,111	–
Australia	3,237	1,563	2,079	542
Other Asia-Pacific regions	8,171	10,924	1,270	6,735
Europe	1,517	1,879	292	907
Other regions	496	4,983	5	2,764
	205,586	196,299	115,916	93,932

4. OPERATING PROFIT

Operating profit is arrived at after charging the following:

	(Unaudited)		(Unaudited)	
	Six months ended 30th September		Three months ended 30th September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Auditors' remuneration	214	–	112	–
Cost of inventories sold	188,412	180,991	106,171	85,559
Amortisation of prepaid lease payments	15	15	7	8
Depreciation of fixed assets				
– owned assets	1,431	1,064	809	513
– assets held under finance leases	–	276	–	138
Operating lease rentals in respect of land and buildings	253	396	126	198
Research and development cost	563	617	262	314
Staff costs including directors' emoluments	6,118	5,096	3,096	2,636

5. TAXATION

	(Unaudited)		(Unaudited)	
	Six months ended 30th September		Three months ended 30th September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Hong Kong profits tax	304	315	264	153
Overseas taxation	15	61	(12)	53
	319	376	252	206
Deferred tax	12	–	2	–
	331	376	254	206

Hong Kong profits tax has been calculated at 17.5% (2004: 17.5%) on the estimated assessable profits arising in or derived from Hong Kong for the periods.

Overseas taxation represented tax charge on the estimated assessable profits of subsidiaries operating overseas including the PRC, calculated at rates prevailing in the respective areas.

One subsidiary which operates in the PRC is subject to the preferential foreign income tax ("FEIT") of 15% on its assessable profit. In accordance with the relevant income tax laws and regulations in the PRC, it has been granted full exemption from the enterprise income tax for two years from its first profit-making year, followed by a 50% reduction in tax rate for the next three years. Pursuant to the preferential tax exemptions described above, the applicable income tax rate for the three years from 2003 to 2005 is 7.5%, representing 50% of the full FEIT rate to which the subsidiary is subject.

Another subsidiary had been registered as an "Offshore Commercial Services Institution" with the Macao Trade and Investment Promotion Institute. In accordance with the Macao Special Administrative Region's Offshore Law, the subsidiary is exempted from Macau income tax derived from its offshore business.

6. DIVIDENDS

The Board does not recommend the payment of an interim dividend for the six months ended 30th September 2005 (2004: HK0.3 cent per Share).

7. EARNINGS PER SHARE

Basic earnings per share for the six months and the three months ended 30th September 2005 are calculated based on the unaudited consolidated net profit attributable to shareholders of HK\$5,194,000 and HK\$3,989,000 respectively (2004: HK\$4,258,000 and HK\$2,319,000 respectively) and on the weighted average number of 357,136,200 and 357,136,200 ordinary shares of the Company (the "Shares") respectively (2004: 264,919,807 Shares and 269,089,591 Shares respectively) in issue during the periods.

In determining the weighted average number of Shares in issue, the 100 Shares issued on incorporation of the Company and as consideration for the acquisition by the Company of the issued share capital of Eagle Up Holdings Limited ("Eagle Up"), and the capitalisation issue of 260,704,100 Shares upon listing on GEM on 23rd September 2004 were also deemed to have been in issue on 1st April 2003 for the purpose of the calculation of basic earnings per Share.

Dilutive earnings per share amounts have not been presented as the Company did not have any dilutive potential ordinary shares during the periods.

8. TRADE AND OTHER RECEIVABLES

The credit terms granted by the Group to its customers normally range from COD (cash-on-delivery) to 60 days, except for sales made to certain credit worthy customers to which a longer credit period of up to 90 days may be granted at the discretion of the Directors.

The following is an aged analysis of trade receivables from third parties at the respective balance sheet dates:

	(Unaudited) As at 30th September 2005 HK\$'000	(Audited) As at 31st March 2005 HK\$'000
0 – 30 days	21,353	26,656
31 – 60 days	14,887	18,377
61 – 90 days	7,886	1,464
Over 90 days	9,503	7,295
	<hr/>	<hr/>
	53,629	53,792
Other receivables	229	11
	<hr/>	<hr/>
	53,858	53,803
	<hr/> <hr/>	<hr/> <hr/>

9. TRADE AND OTHER PAYABLES

The following is an aged analysis of trade payables at the respective balance sheet dates:

	(Unaudited) As at 30th September 2005 HK\$'000	(Audited) As at 31st March 2005 HK\$'000
0 – 30 days	11,815	9,292
31 – 60 days	3,793	1,820
61 – 90 days	2,792	2,745
Over 90 days	1,983	1,751
	<hr/>	<hr/>
	20,383	15,608
Other payables	1,867	2,515
	<hr/>	<hr/>
	22,250	18,123
	<hr/> <hr/>	<hr/> <hr/>

10. SHARE CAPITAL

	(Unaudited) Number of shares	(Audited) Nominal value HK\$'000
<i>Authorised:</i>		
As at 1st April 2005		
Ordinary shares of HK\$0.01 each	<u>500,000,000</u>	<u>5,000</u>
As at 30th September 2005		
Ordinary shares of HK\$0.01 each	<u>500,000,000</u>	<u>5,000</u>
<i>Issued and fully paid:</i>		
As at 1st April 2005		
Ordinary shares of HK\$0.01 each	<u>357,136,200</u>	<u>3,571</u>
As at 30th September 2005		
Ordinary shares of HK\$0.01 each	<u>357,136,200</u>	<u>3,571</u>

11. INTEREST-BEARING BORROWINGS

	(Unaudited) As at 30th September 2005 HK\$'000	(Audited) As at 31st March 2005 HK\$'000
Bank overdraft	3,139	–
Trust receipt loans	6,498	3,922
Bank loans – unsecured	<u>943</u>	<u>1,400</u>
	10,580	5,322
Current portion of interest-bearing borrowings	<u>(10,580)</u>	<u>(4,845)</u>
Non-current portion of interest-bearing borrowings	<u><u>–</u></u>	<u><u>477</u></u>

12. COMMITMENTS*(a) Capital commitments*

The Group had capital commitments in respect of acquisition of fixed assets as follows:

	(Unaudited) As at 30th September 2005 HK\$'000	(Audited) As at 31st March 2005 HK\$'000
Capital expenditure authorised but not contracted for	<u>6,550</u>	<u>10,000</u>

(b) Operating lease commitments

The Group had future aggregate minimum lease payments under non-cancellable operating leases in respect of land and buildings falling due as follows:

	(Unaudited) As at 30th September 2005 HK\$'000	(Audited) As at 31st March 2005 HK\$'000
Within one year	574	304
In the second to fifth year, inclusive	<u>267</u>	<u>247</u>
	<u>841</u>	<u>551</u>

13. RELATED PARTY TRANSACTIONS

The Group had the following significant related party transactions during the periods:

	(Unaudited) Six months ended 30th September		(Unaudited) Three months ended 30th September	
	2005 HK\$'000	2004 HK\$'000	2005 HK\$'000	2004 HK\$'000
Easely Investments Limited – Rentals of a director's quarter paid by the Group	<u>162</u>	<u>150</u>	<u>81</u>	<u>75</u>

Notes:

- (i) Easely Investment Limited ("Easely") is a company in which Mr. Chan Hing Yin, one of the Directors, has beneficial interest as a director and as a shareholder with 99.99% shareholding.
- (ii) The lease expired on 31 October 2005 is replaced by a new lease of one year period up to 31 October 2006 entered by the Group with Easely for leasing of a director's quarter and the monthly rental payable by the Group under such lease is HK\$33,000, which was determined by terms agreed by both parties with reference to open market value.

14. CONTINGENT LIABILITIES

As at 30th September 2005, seven employees of the Group have completed the required number of years of services under the Hong Kong Employment Ordinance (the "Employment Ordinance") to be eligible for long service payments upon termination of their employment. The Group is only liable to make such payments where the termination meets the relevant circumstances specified in the Employment Ordinance.

Subject to the termination of the employment of all such employees meeting the relevant circumstances set out in the Employment Ordinance, the Group was exposed to a liability amounting to approximately HK\$578,000 as at 30th September 2005 (as at 31st March 2005: HK\$560,000). No provision has been made in this respect.

Save as disclosed above, the Group did not have any significant contingent liabilities as at 30th September 2005.

15. COMPARATIVE FIGURES

Certain comparative figures have been re-classified to conform with current period's presentation.

MANAGEMENT DISCUSSION AND ANALYSIS**FINANCIAL REVIEW****Turnover and profit**

Total turnover of the Group for the six months ended 30th September 2005 amounted to approximately HK\$206 million, representing an increase of approximately 5% as compared with that of the corresponding period in 2004. The increase was mainly due to the increase of 15% in the turnover from sales of the Group's own-manufactured goods, and the revival of processing fee income. Customers who placed orders for processing services also purchased components from the Group, leading to the increase of turnover from the sales of the Group's own manufactured goods as well.

The gross profit margin for the six months ended 30th September 2005 has improved slightly to approximately 5.8%, against approximately 5.3% recorded for the corresponding period in 2004. Turnover from the provision of processing services has been generating a higher gross profit margin due to its relatively low cost structure and has therefore contributed to the increase in the Group's overall gross profit margin for the six months ended 30th September 2005.

Profit attributable to shareholders of the Group for the six months ended 30th September 2005 was approximately HK\$5.2 million, while that for the corresponding period in 2004 was approximately HK\$4.3 million.

Selling and distribution expenses

The selling and distribution expenses of the Group for the six months ended 30th September 2005 amounted to approximately HK\$501,000, representing an increase of approximately 8.9% as compared to the corresponding period in 2004. The increase was mainly due to additional expenses on advertising and promotional campaign for the promotion of the Group's own branded products in Hong Kong and overseas markets.

General and administrative expenses

The general and administrative expenses of the Group for the six months ended 30th September 2005 amounted to approximately HK\$6,038,000, representing an increase of approximately 8.4% compared to the corresponding period in 2004. The increase was mainly due to the increase in salaries expenses as result of the recruitment of additional staff and the payment of expenses for maintaining the listing status of the Company.

Finance cost

The finance cost of the Group for the six months ended 30th September 2005 amounted to approximately HK\$169,000, representing an increase of approximately 9.7% as compared to the corresponding period in 2004. The increase was mainly due to the increase of interest in association with the increased banking facilities of the Group for the period.

Investment

The Group operates a conservative set of investment policies to ensure that no unnecessary risks are taken with the Group's assets. During the period, the Group has not made any significant investment or acquisition other than cash and short-term bank deposits.

FOREIGN EXCHANGE EXPOSURE

Most of the trading transaction, assets and liabilities of the Group were denominated in Hong Kong dollars, US dollars and RMB. The Group adopted a conservative treasury policy with most of the bank deposits being kept in Hong Kong dollars and US dollars, or in the local currencies of the operating subsidiaries to minimize exposure to foreign exchange risks. As at 30th September 2005, the Group had no foreign exchange contracts, interest or currency swaps or other financial derivatives for hedging purposes.

LIQUIDITY AND CAPITAL RESOURCES

The Group generally finances its operation with cash flow generated from sales and banking facilities. As at 30th September 2005, the Group had cash and bank balance of approximately HK\$11,679,000, had short term tax loans of approximately HK\$943,000, and had unutilized banking facilities of approximately HK\$1,360,000. All interest-bearing borrowings are subject to floating interest rate only.

In view of the current cash position, the banking facilities available and the expected future cash flow from operations, the Directors believe that the Group has sufficient financial resources to meet its operation needs.

GEARING RATIO

The Group's gearing ratio as at 30th September 2005 increases to 13.6% from 7% as at 31st March 2005. The gearing ratios were calculated as the Group's interest-bearing borrowings to the shareholders' equity as at the respective balance sheet dates. The increase in the gearing ratio was due to increased utilization of banking facilities.

CHARGES ON THE GROUP'S ASSETS

As at 30th September 2005, the Group's leasehold land and buildings with net book value of approximately HK\$3,264,000 (as at 31st March 2005: HK\$3,300,000) were pledged as collaterals for the Group's general banking facilities of approximately HK\$8,000,000.

MATERIAL ACQUISITIONS AND DISPOSALS

During the six months ended 30th September 2005, the Group did not have any material acquisitions and disposal of subsidiaries.

CONTINGENT LIABILITIES

Save as disclosed in note 14 to the unaudited condensed consolidated financial statements above, the Group did not have any other material contingent liabilities as at 30th September 2005.

BUSINESS REVIEW AND PROSPECT

For the six months ended 30th September 2005, the proportion of turnover from (i) sales of the Group's own-manufactured goods; (ii) trading of PC components; and (iii) provision of processing service were approximately 84%, 8% and 8% of the Group's total turnover respectively.

In order to enhance the competitiveness of the Group's products and boost the production capacity, the Group purchases the fourth and fifth SMT production lines and three SMT machines for HK\$6.6 million in November 2005. The costs of these additional SMT production line and SMT machines are funded out of the proceeds from the IPO and from the internal financial resources of the Group. These new production lines are the best amongst its machine types, and the acquisition will be able to expand the Group's existing production capacity to meet any future growth in demand and to increase production of high-end products for other PC component manufacturers.

The Group is determined to enhance the existing research and development capability by recruiting more professional staff to develop new and more competitive models of VGA display card in order to cope with the market development.

On the sales and marketing side, the Group will endeavor to promote its products by advertising the Group's products in magazines and aggressively participating in technology exhibitions in both Asian and Eastern European countries, and study the feasibility of setting up an establishment in Eastern Europe to facilitate the expansion strategies of the Group's business in the Eastern European markets if the market environment continues to improve.

Following the successful listing of the Shares on GEM, the Board believes that the Company is in a better position to implement the aforesaid business plans, and is confident that with the Company's dedicated management team and the financial support obtained through the Placing, the Group's business will continue to provide solid contributions throughout the remainder of the financial year.

ADVANCE TO AN ENTITY

As at 30th September 2005, trade receivable from two customers of the Group (the "Trade Receivable"), 深圳市盈嘉訊實業有限公司 ("深圳盈嘉訊") and 廣州市天想電腦科技有限公司 ("廣州天想電腦"), which are independent third parties of the Company and are not connected persons the Company (as defined in the GEM Listing Rules), amounted to approximately HK\$23,108,000 and HK\$15,853,000 respectively (as at 31st March 2005: nil and nil respectively), representing approximately 20.6% and approximately 14.1% respectively of the Group's unaudited consolidated total assets as at 30th September 2005.

The above-mentioned customers are disclosed according to rules 17.15 to 17.22 of the GEM Listing Rules given that the relevant advance to the entity from the Group exceeds 8% of the Group's consolidated total assets or the market capitalisation of the Company, whichever is the lower. Further, the trade receivable was resulted from sales to the above-mentioned customers by the Group in its ordinary course of business and on normal commercial terms. It is unsecured, interest-free, and has a payment term of 30 days. The amount has been settled approximately 98% up till the date of publication of this report.

EMPLOYEE INFORMATION

The remuneration for the employees of the Group amounted to approximately HK\$6,118,000, including Directors' emoluments of approximately HK\$751,000 for the six months ended 30th September 2005. As at 30th September 2005, the Group employed 457 employees in the PRC, Hong Kong, Singapore and Macau.

SHARE OPTION SCHEME

Pursuant to the written resolutions of the sole shareholder of the Company dated 6th September 2004, the Company has conditionally adopted the share option scheme (the "Share Option Scheme") under which share options to subscribe for the Company's shares may be granted under the terms and conditions stipulated therein. The principal terms of the Share Option Scheme are summarised in the paragraph headed "Share Option Scheme" in Appendix 5 to the Prospectus. As at 30th September 2005, no share option was granted under the Share Option Scheme.

COMPARISON OF BUSINESS PLAN WITH ACTUAL BUSINESS PROGRESS

The following is a comparison of the implementation plan of the Group's business objectives as stated in the Prospectus of the Company dated 23rd September 2004 (the "Prospectus") and its actual progress. The Directors are of the view that the Group has followed its implementation plan in accordance to that disclosed in the Prospectus. Nevertheless, in order to attain long-term business goals, the Group will review its business objectives and strategies on an on-going basis and make adjustments as necessary.

BUSINESS PLAN**ACTUAL BUSINESS PROGRESS****(i) To upgrade the production facilities**

- Complete the installation of and put the 4th SMT production line in full operation

- Purchase the 4th & 5th SMT production lines in November 2005

(ii) To promote the Group's brand name "EAGLE"

- Advertise the Group's products in magazines

- Advertise the Group's products in magazines weekly and monthly to boost the sales and to promote the Group's brand name products in the market

- Periodic review of the Group's strategies on product advertisements

- Advertise full range of products from low to top models

- Participate in the computer exhibition "Computex" to be held in Taiwan

- Participate in "Gitex 2005" at Dubai instead

(iii) To explore new markets and expand distribution network

- Establish subsidiaries or branch offices in Hungary or Austria

- The project is still at study stage

- Employ 2 to 3 staff for the subsidiaries or branch offices

- Recruit 1 more staff for Macau office

- Continue the distribution arrangements in the Eastern European market

- The distribution arrangements are the same as before

(iv) To expand the research and development capability

- Recruit 2 technicians in the PRC

- The Group has recruited 2 technicians in PRC

- Develop new models of VGA display card and motherboard in order to cope with the latest development of CPU and requirements in visual display

- New models of VGA display card cope with faster speed CPU in the market and provide end-users with a graphics up-grade path

- Review periodically the existing products and initiate projects to improve their functionalities and reduce production cost

- A team of technicians works on continuous basis to review and to initiate product development and to reduce production cost

USE OF PROCEEDS

The actual net proceeds from the Placing was approximately HK\$19.4 million which was not materially different from the estimated net proceeds of approximately HK\$19.5 million as stated in the Prospectus. During the period from the latest practicable date as defined in the Prospectus (being 23rd September 2004) to 30th September 2005, net proceeds from the issue of new shares were applied as follows:

	Planned use of proceeds as stated in the Prospectus	Actual use of proceeds
	HK\$'000	HK\$'000
To upgrade the production facilities	5,000	–
To promote the Group's brandname "EAGLE"	1,050	919
To explore new markets and expand distribution network	625	106
To expand research and development capabilities	140	89
General working capital	6,000	6,000
	<hr/>	<hr/>
Total	<u>12,815</u>	<u>7,114</u>

DIRECTORS' AND EMPLOYEES' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save for the share options that may be granted under the Share Option Scheme, none of the Directors or employees of the Group or their respective associates were granted by the Company or its subsidiaries the rights to acquire shares or debentures of the Company or any other body corporate, or had exercised any such rights as at 30th September 2005.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 30th September 2005, the interests and short positions of the Directors and chief executives of the Company in the Shares, underlying Shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) which were recorded in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules, were as follows:

Long positions in shares of the Company

Name of Director	Nature of interest	Number and class of securities	Approximate % of the issued share capital of the Company
Mr. Chan Hing Yin	Interest in a controlled corporation	249,992,200 ordinary shares of HK\$0.01 each ("Shares") (Note)	70%

Note: These Shares are held by Osborne Pacific Limited ("Osborne") which is wholly and beneficially owned by Mr. Chan Hing Yin.

Save as disclosed above, as at 30th September 2005, none of the Directors or chief executives of the Company had any interests and short positions in the Shares, underlying Shares or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were recorded in the register required to be kept under section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to Rule 5.46 to 5.67 of the GEM Listing Rules.

PERSONS WHO HAVE AN INTEREST OR A SHORT POSITION WHICH IS DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO AND SUBSTANTIAL SHAREHOLDING

So far as is known to any Director or chief executive of the Company, as at 30th September 2005, the following person (other than the Directors and chief executives of the Company whose interests are set out in the section "Directors' and chief executives' interests and short positions in shares and underlying shares" above) had an interest or a short position in the Shares or underlying Shares which were recorded in the register required to be kept under Section 336 of the SFO.

Name of Shareholder	Nature of interest	Number and class of securities	Approximate % of the issued share capital of the Company
Osborne Pacific Limited	Beneficial owner	249,992,200 Shares (Note 1)	70%
Chan, Selma (Note 2)	Family interest of controlled corporation	249,992,200 Shares (Note 2)	70%

Notes:

- (1) These Shares are held by Osborne which is wholly and beneficially owned by Mr. Chan Hing Yin.
- (2) These represent the same quantum of Shares held by Osborne. As Mrs. Chan, Selma is the spouse of Mr. Chan Hing Yin, she is deemed to have interests in the Shares held by Osborne.

Save as disclosed above, as at 30th September 2005, the Company had not been notified of any other person (other than the Directors or chief executives of the Company) who had an interest or short position in the Shares or underlying Shares of the Company which were required to be kept under Section 336 of the SFO.

COMPETING INTERESTS

None of the Directors or the management shareholders of the Company or their respective associates (as defined in the GEM Listing Rules) had an interest in a business which competes or may compete with the business of the Group during the period under review.

COMPLIANCE ADVISER'S INTERESTS

Pursuant to the agreement dated 13th September 2005 entered into between the Company and Barits Securities (Hong Kong) Limited ("Barits"), Barits has been appointed as the compliance adviser of the Company as required under the GEM Listing Rules, which applied before the amendment of the GEM Listing Rules on 1st January 2005, at a fee for the period from 23rd September 2005 to 31st March 2007 or until the aforesaid agreement is terminated in accordance with the terms and conditions set out therein.

None of Barits, its directors, employees or associates (as referred to in notes 2 and 3 to Rule 6.35 of the GEM Listing Rules) had any interests in the securities of the Company or any member of the Group (including options or rights to subscribe for such securities) as at 30th September 2005.

CODE OF CONDUCT REGARDING SECURITIES TRANSACTIONS BY DIRECTORS

During the six months ended 30th September 2005, the Company had adopted a code of conduct regarding securities transactions by Directors on terms no less exacting than the required standard of dealings as set out in Rules 5.48 to 5.67 of the GEM Listing Rules. The Company had also made specific enquiry of all Directors and was not aware of any non-compliance with the required standard of dealings and its code of conduct regarding securities transactions by Directors.

PURCHASE, SALE OR REDEMPTION OF SHARES

Since the listing of the Shares on the GEM of the Stock Exchange on 23rd September 2004 and up to 30th September 2005, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Shares.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

The Board is committed to maintaining a high standard of corporate governance. During the six months ended 30th September 2005, the Company has complied with most of the principles and code provisions in the "Code on Corporate Governance Practices" as set out in Appendix 15 to the GEM Listing Rules, with deviations from the code provisions A.2.1 and B.1.1. in respect of the separate roles of chairman and chief executive officer and the establishment of a remuneration committee.

At present, Mr. Chan Hing Yin serves as both the chairman and chief executive officer of the Company. The Board believes that such arrangement would facilitate more efficient planning and execution of business strategies of the Company. Nonetheless, the Board considered the relevant code provision acceptable and would separate the roles of chairman and chief executive officer as soon as possible.

The Company has not yet set up a remuneration committee but the Director are of the opinion that the absence of such would not have a material impact on the determination of remuneration. Nonetheless, the Board plans to set up the remuneration committee as soon as possible.

AUDIT COMMITTEE

The Company has established an audit committee (the "Audit Committee") with written terms of reference in compliance with the GEM Listing Rules.

The Audit Committee provides a link between the Board and the Company's auditors in matter coming within the scope of the Group audit, review the Company's annual report, half-yearly report and quarterly reports and provide advice and comments thereon to the Board, supervise the financial reporting process and internal control procedures of the Group, and monitor relationship with the Company's auditors. The Audit Committee comprises three independent non-executive Directors, namely Mr. Tam Yuk Sang, Sammy, Mr. Lam Ping Cheung, Andrew and Ms. Chan Yi Man, Magdalen.

The Audit Committee has reviewed with the management the accounting principles and practices adopted by the Group and discussed internal controls and financial reporting matters including a review of the unaudited condensed accounts for the six months ended 30th September 2005. The Audit Committee had not identified any disagreement with the accounting treatments which had been adopted in the preparation of the Group's Interim Report.

By Order of the Board
Espco Technology Holdings Limited
Chan Hing Yin
Chairman

Hong Kong, 14th November 2005

As at the date of this report, the Board comprises Mr. Chan Hing Yin (executive Director), Mr. Chan Hing Kai (executive Director), Mr. Lam Ping Cheung, Andrew (independent non-executive Director), Mr. Tam Yuk Sang, Sammy (independent non-executive Director), and Ms. Chan Yi Man, Magdalen (independent non-executive Director).